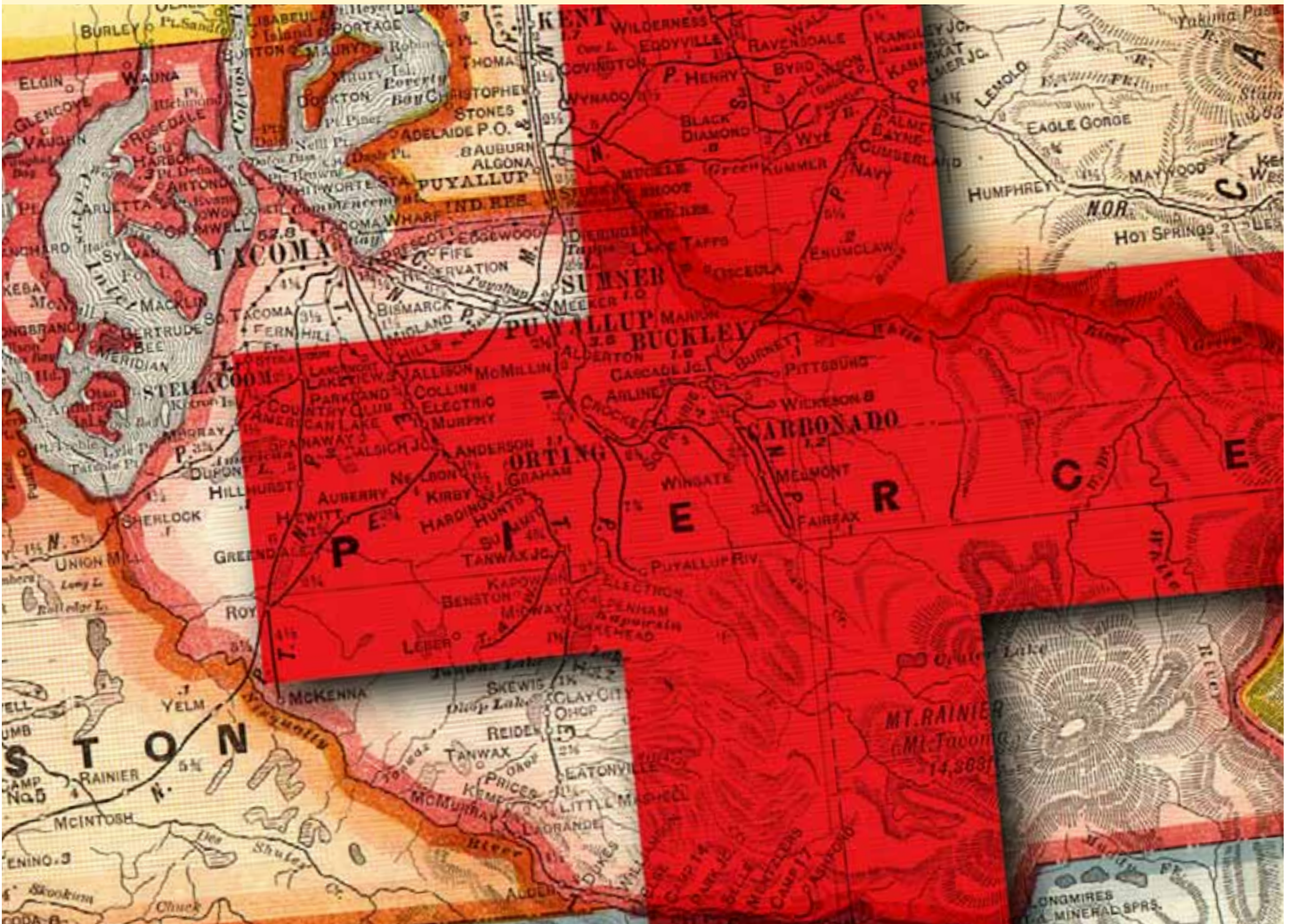


Caring for Pierce County:

Are Our Local Healthcare Providers Adequately Serving Our Community?



Introduction

Healthcare delivery in Tacoma, Washington, is dominated by two large healthcare systems: MultiCare Health System and Franciscan Health System. Both are sophisticated integrated delivery systems with multiple hospitals, outpatient facilities, networks of primary and specialty care clinics, and a diverse range of other types of services and facilities. Even though they are nonprofit organizations that enjoy valuable tax-exemptions at the state and federal levels, the hospitals in both systems routinely post huge profits. At the same time, Tacoma and surrounding Pierce County communities face significant economic and healthcare challenges. This state of affairs raises serious questions about whether MultiCare and Franciscan are doing enough to serve our communities.

This paper aims to do three things:

- (1) survey the economic challenges and unmet healthcare needs facing Pierce County residents;
- (2) show that MultiCare and Franciscan are annually accumulating large profits operating in communities that face these challenges; and
- (3) pose questions of policy and civic accountability.



Economic and Health Challenges in Pierce County

The availability and affordability of quality healthcare for patients across the socioeconomic spectrum remains a serious public health issue. While national and state healthcare reform laws will help address this issue once the reforms go into effect, equitable access to healthcare can be expected to remain a challenge for many years to come. This is true throughout the United States, but the problem is especially acute in communities with postindustrial economies, where the number of living wage jobs for working people has declined and unemployment and poverty have increased as a result.

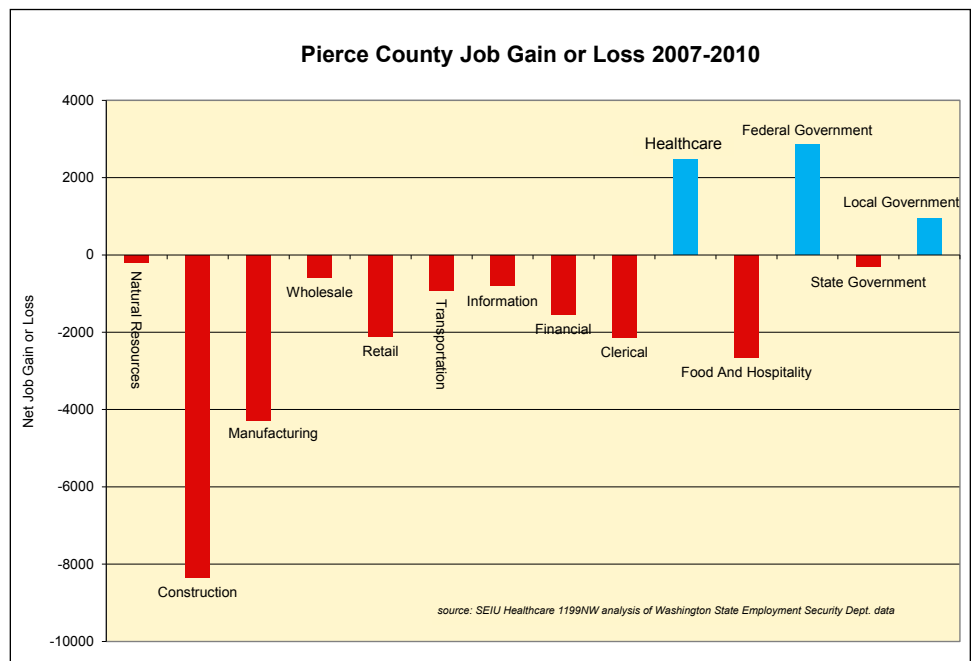
Tacoma, Washington, and much of surrounding Pierce County is one of those communities. A region that once claimed a robust local economy built on wood products, copper smelting, international trade, and the military now finds that these industries can no longer be counted upon to provide good jobs for everyone. Some efforts to rebuild the local economy have met with success in recent years, but many residents still cannot find jobs and most settle for jobs with poor wages and few benefits.

Economy

The numbers confirm what residents already know: Pierce County is a community in economic distress.

The unemployment rate for Pierce County in August 2011 was 9.9%. The statewide rate for Washington state was 8.9% and King County's rate was 8.1%. Pierce County has been hit hard by the economic downturn. The county lost over 14,000 jobs from 2007 to 2010. Over 4,000 of those jobs lost were in manufacturing, which saw a 20% decline over that period of time.¹

Economic conditions remain worse in Pierce County than in King County. In 2010 per capita income was \$26,148 in Pierce County and median earnings were \$32,371. Compare that to King County, where the annual per capita income was more than \$10,000 higher at \$36,410 and median earnings were \$37,314.²



Basic needs such as shelter and food are beyond the means of many in Pierce County. The average hourly wage of a renter in Pierce County was \$12.79 in 2010, yet, in order to afford a one-bedroom apartment without paying more than 30% of one's income, a wage of \$14.92 per hour was required.³ A 2005 survey by the Pierce County Department of Community Services (PCDCS) found that social services clients' greatest need is affordable housing – 52% need assistance with their rent. Food security is also a serious issue – 44% of PCDCS clients surveyed needed help buying food.⁴ Another survey by the Washington Department of Health found that 13% of Pierce County residents did not have enough money to afford balanced meals.⁵ And those with jobs are not spared these hardships. One out of seven Pierce County residents used a food bank in 2010, and 40% of them were working.⁶

1 SEIU Healthcare 1199NW analysis of data from Washington State Employment Security Department.

2 U.S. Census Bureau (2010), American Community Survey. Accessed September 20, 2011, at <http://www.census.gov/acs/www/>.

3 United Way of Pierce County (2010), Community Indicators. Accessed September 20, 2011, at <http://www.indicators.uwpc.org/Housing/housing8b.htm>.

4 City of Tacoma (2006), *Human Services Strategic Plan*, Tacoma: City of Tacoma Human Rights and Human Services Department, p. 13. Accessed November 29, 2011, at <http://cms.cityoftacoma.org/hrhs/hspc/062706HSSPFinal.pdf>.

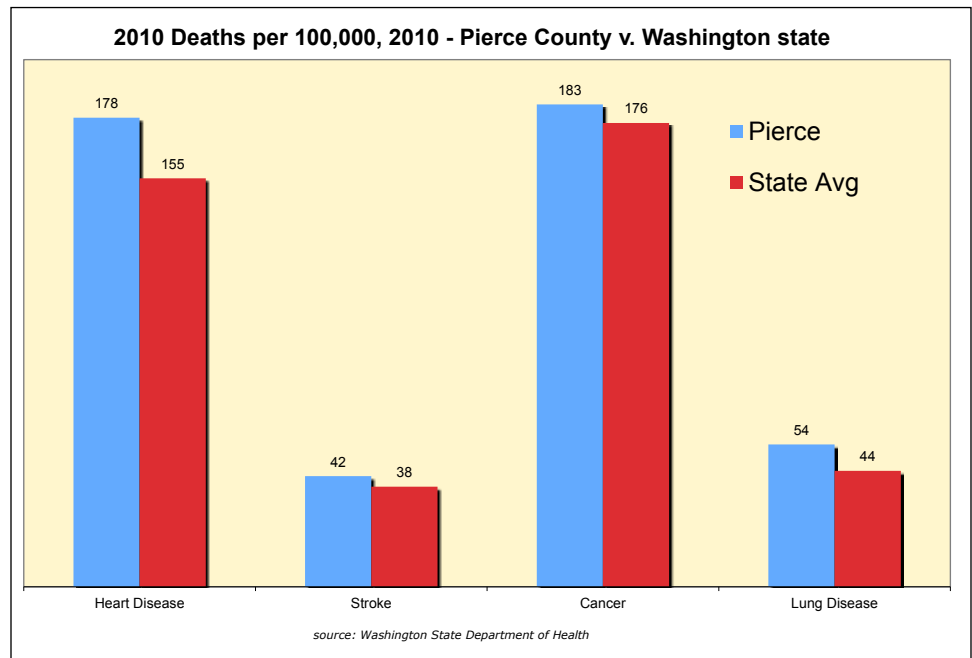
5 Washington State Department of Health (2010), Behavioral Risk Factor Surveillance System Survey, 2010. Accessed September 21, 2011, at <https://fortress.wa.gov/doh/brfss/BRFSSHome.aspx>.

6 Emergency Food Network of Pierce County (2010), EFN by the Numbers. Accessed September 21, 2011, at <http://www.efoodnet.org/Page7.aspx>.

Health

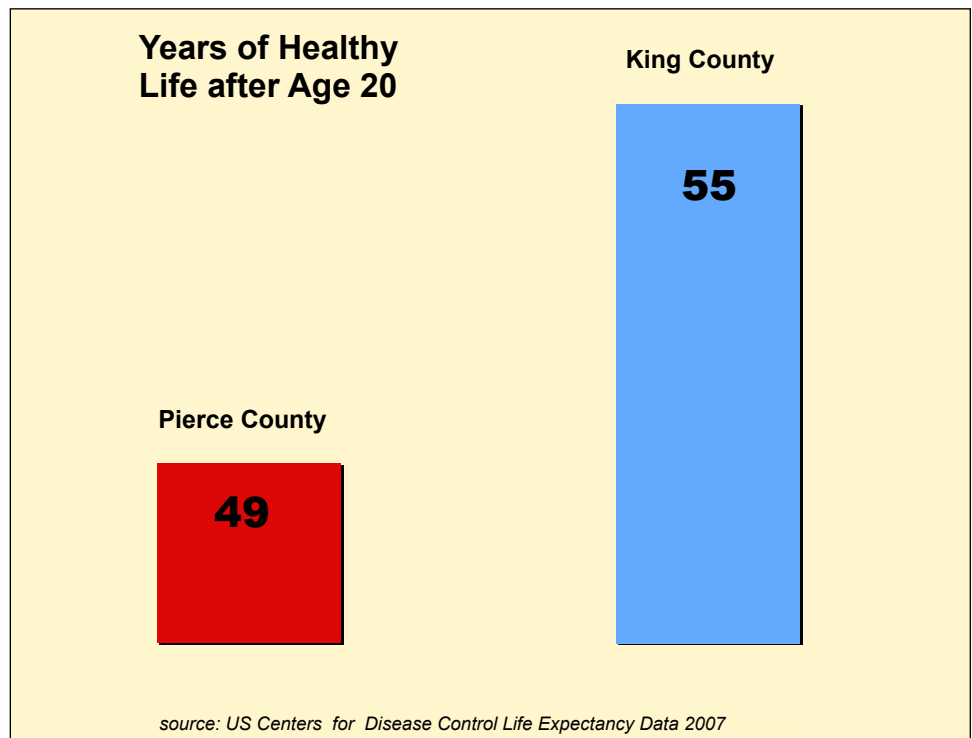
A depressed local economy is typically accompanied by undesirable public health trends.⁷ Not surprisingly, then, public health indicators suggest that there are serious unmet healthcare needs in communities across economically-challenged Pierce County.

The rate of occurrence of cancer and diabetes is significantly higher in Pierce County than the statewide average.⁸ The overall death rate in Pierce County has been markedly higher than the statewide average for the last 20 years, as has the infant mortality rate. Deaths due to heart disease, chronic respiratory disease, and stroke occur at high rates in Tacoma compared to the rest of the state.⁹



Actuarial data reveal that a 20-year-old King County resident has, on average, 55 additional years of healthy life ahead, but a 20-year-old resident of Pierce County can expect only 49 more years of healthy life.¹⁰

Perhaps one reason Pierce County residents are less healthy is because they have difficulty accessing a full range of healthcare services, especially primary care. Twenty-three percent of Pierce County adults report that they do not have a personal healthcare provider and 52% of African-Americans in Pierce County report having no usual source of healthcare.¹¹ This could be partly because there aren't that many physicians to go around; Pierce County has between two and three doctors per 1000 residents. King County, by contrast, has between five and six doctors per 1000.¹²



7 The research on this point is extensive. See, for example, J. Ludwig *et al.* (2011), "Neighborhoods, Obesity, and Diabetes – A Randomized Social Experiment," *New England Journal of Medicine* **365**:1509-1519; D. Silver *et al.* (2011), "Lifting Boats Without Closing Gaps: Child Health Outcomes in Distressed US Cities From 1992-2002," *American Journal of Public Health* **101**: 278-284; see also M.A. Winkleby *et al.* (1992), "Socioeconomic Status and Health: How Education, Income, and Occupation Contribute to Risk Factors for Cardiovascular Disease," *American Journal of Public Health* **82**: 816–820; S.H. Wilson and G.M. Walker (1993), "Unemployment and Health: A Review," *Public Health* **107**: 153–162.

8 Tacoma-Pierce County Health Department (2010), Public Health Indicators. Accessed November 29, 2011, at <http://www.tpchd.org/files/library/6f36434f6a0f0777.pdf>.

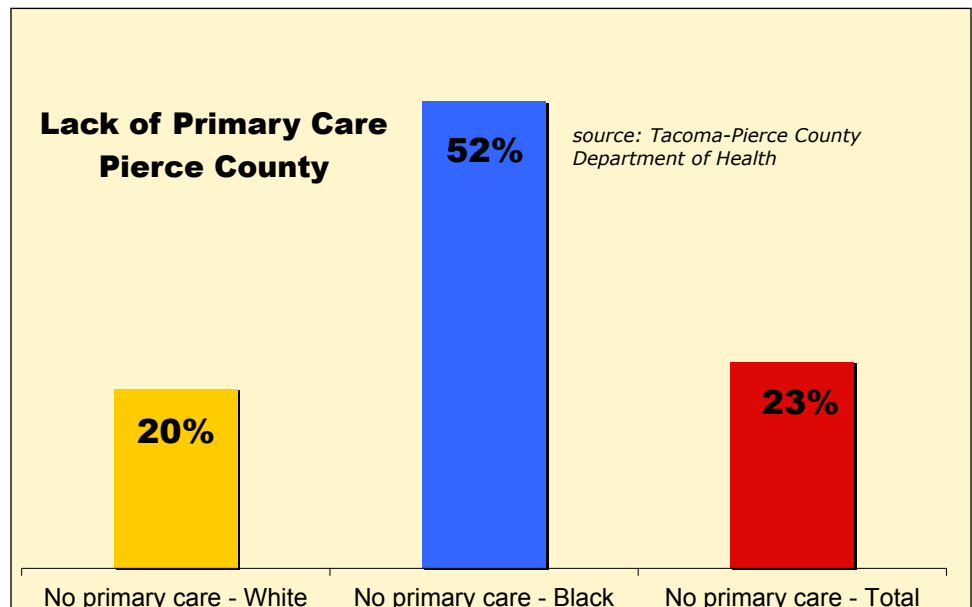
9 Washington State Department of Health Center for Health Statistics (2009), Death Certificate Data. Accessed November 29, 2011, at <http://www.doh.wa.gov/ehsphl/chs/chs-data/death/deatMain.htm>

10 U.S. Centers for Disease Control, Life Expectancy Data 2007. Accessed September 22, 2011, at <http://www.cdc.gov/nchs/deaths.htm>.

11 Washington State Department of Health (2010), Behavioral Risk Factor Surveillance System Survey. Accessed September 21, 2011, at <https://for-tress.wa.gov/doh/brfss/BRFSSHome.aspx>.

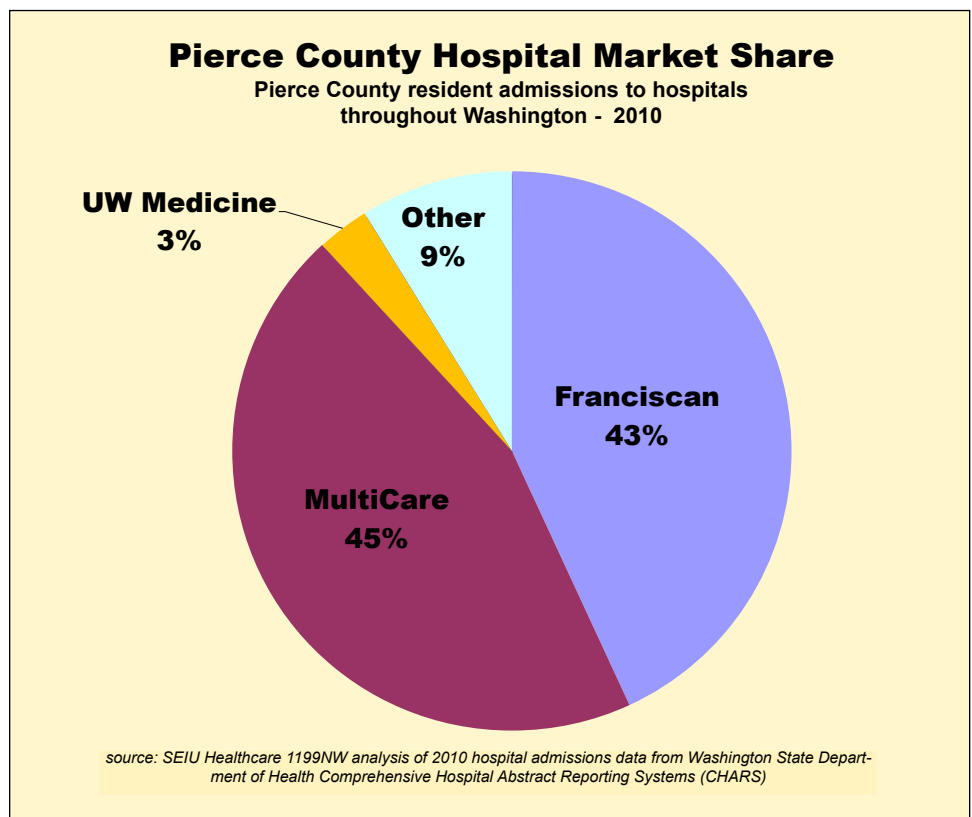
12 American Medical Association (2011), *Physician Characteristics and Distribution in the US, 2010*, Chicago: American Medical Association.

Others simply can't afford care. The percentage of uninsured in Pierce County (about 14%)¹³ is comparable to statewide and King County averages, but that's not the whole story. Thirteen percent of Pierce County residents had unmet healthcare needs because of cost, even though 55% of those who could not afford to address their unmet health needs had health insurance.¹⁴ Clearly, out-of-pocket cost is a serious issue for many Pierce County residents, whether or not they are insured.



The Pierce County Healthcare Market – Profitable Hospitals

The above review of economic indicators and several common measures of health status suggests that there are significant unmet healthcare needs in Pierce County. In the midst of these challenges, one sector of Pierce County's economy continues to show robust growth: healthcare. Together, the hospitals owned and operated by MultiCare and Franciscan command 88% of the Pierce County inpatient healthcare market; the two systems have no serious competition in the county other than each other.¹⁵ Not only are MultiCare and Franciscan the largest healthcare delivery systems in the county, but also they are now the top two private employers in the county.¹⁶



13 Elizabeth Pulos (2010), *Access to Health Care in Tacoma*, Tacoma: Tacoma-Pierce County Health Department, Office of Community Assessment. Accessed November 29, 2011, at <http://cms.cityoftacoma.org/hrhs/AccessToHealthCareReport.pdf>.

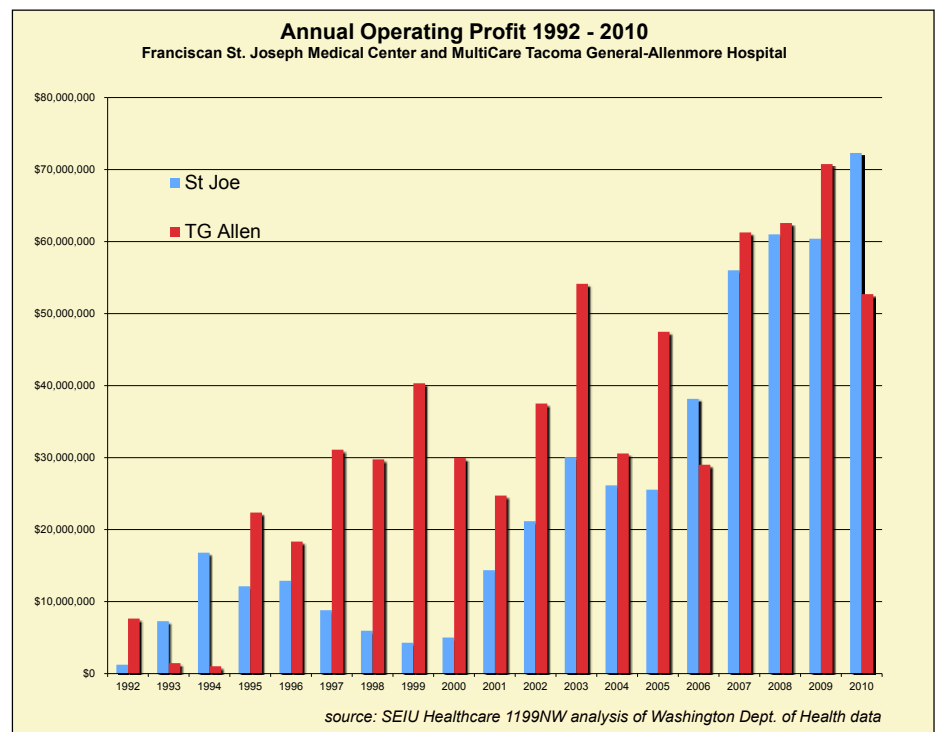
14 *Ibid.*

15 SEIU Healthcare 1199NW analysis of Washington State Department of Health 2010 hospital admissions data from Comprehensive Hospital Abstract Reporting System (CHARS) database.

16 Economic Development Board for Tacoma-Pierce County (2011), 2011 Pierce County Major Employers. Accessed September 20, 2011, at <http://www.edbtacomapierce.org/page.aspx?nid=5>.

MULTICARE HEALTH SYSTEM	FRANCISCAN HEALTH SYSTEM
HOSPITALS	HOSPITALS
<ul style="list-style-type: none"> Tacoma General Hospital (Pierce County) Allenmore Hospital (Pierce County) Mary Bridge Children's Hospital (Pierce County) Good Samaritan Hospital (Pierce County) 	<ul style="list-style-type: none"> St. Francis Hospital (King County) St. Elizabeth Hospital (King County) St. Joseph Medical Center (Pierce County) St. Clare Hospital (Pierce County) St. Anthony Hospital (Pierce County)
CLINICS	CLINICS
<ul style="list-style-type: none"> 45 primary and specialty care clinics 10 urgent care centers 	<ul style="list-style-type: none"> 36 primary and specialty care clinics two "prompt care" centers
OTHER FACILITIES and SERVICES	OTHER FACILITIES and SERVICES
Regional cancer center, home health and hospice, "Healthy Living" instructional center, dialysis centers	U-W Tacoma Student Health Services, St. Francis Weight Loss Center, Hospice House, Digestive Disease Center, dialysis centers

Perhaps even more surprising, year after year the MultiCare and Franciscan hospitals post millions of dollars in annual profits.¹⁷ Consider the largest hospitals in each system: Franciscan St. Joseph Medical Center in Tacoma has posted an annual profit every year for the past 19 years, for a total operating profit exceeding \$479 million over that period; MultiCare Tacoma General-Allenmore Hospital has also posted an annual profit every year for the last 19 years, for a total operating profit exceeding \$652 million over that period. (It is important to remember that these profit numbers reflect the money left over after all expenses have been covered, so that all wages and rents and supply expenses and the like – as well as all charity care awards, bad debt expenses, and "community benefits" expenditures – have already been deducted from these amounts.)



But it's not just the largest hospitals within each system that are extremely profitable. A look at the combined operating results of all the hospitals within each system reveals that both systems routinely post sizeable profit margins on hospital operations.¹⁸ These margins are much higher than the average for comparable hospitals; the weighted mean operating profit margin for general acute care hospitals statewide has typically hovered between 2% and 3% and has only recently risen to close to 5%. The Franciscan and MultiCare hospitals do much better than that. For the 2011 fiscal year, the five Franciscan hospitals combined generated \$1.2 billion in total operating revenue and posted an operating profit of \$147 million, for an impressive 12% operating profit margin.¹⁹ For the 2010 fiscal year (MultiCare's fiscal year follows the calendar year), the MultiCare system showed an operating profit of \$95 million, for a healthy 7% operating profit margin.²⁰ The upshot is that the average operating profit margin for general acute care hospitals in Pierce County – all of which are Franciscan or MultiCare hospitals – far exceeds the average margin for general acute care hospitals in other counties in the area and the average margin for all general acute care hospitals across the state.

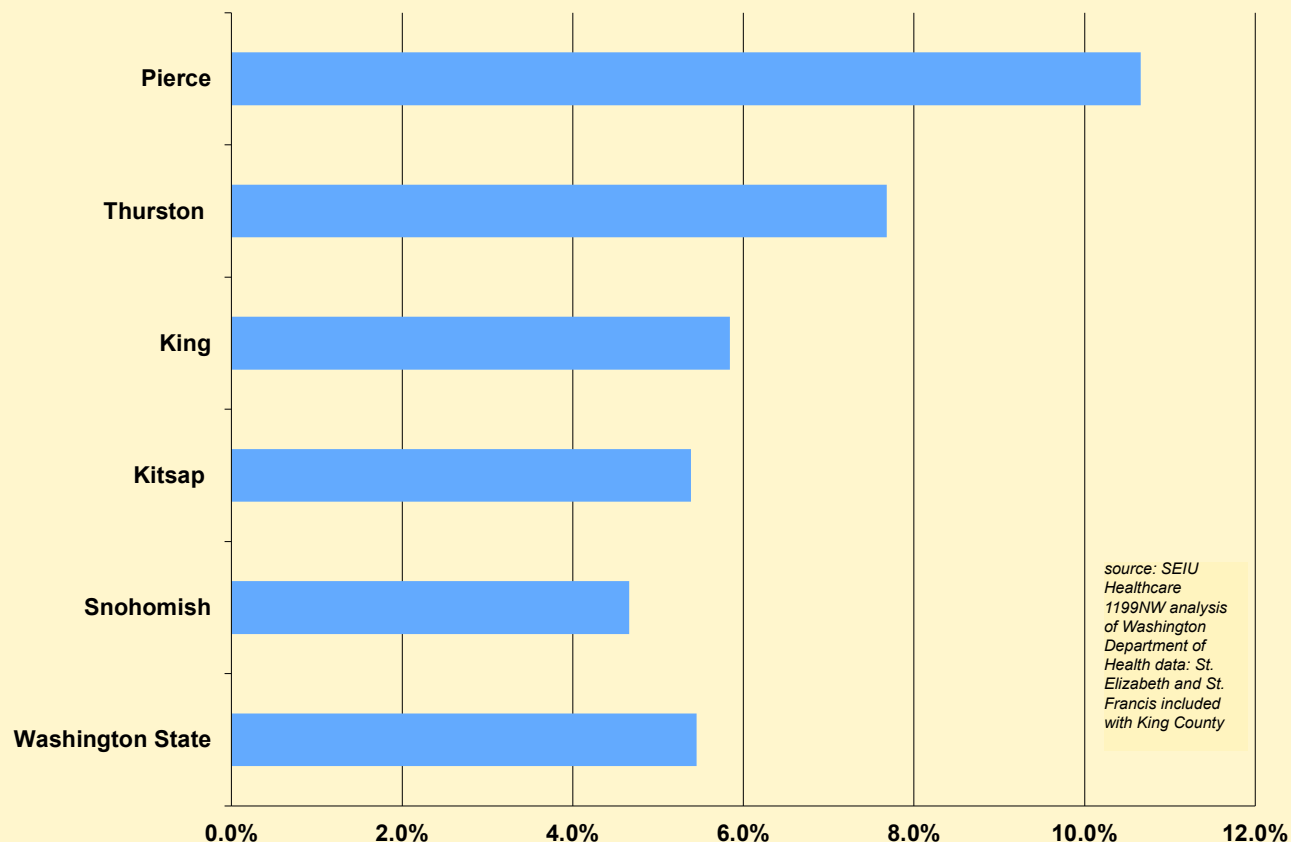
¹⁷ SEIU Healthcare 1199NW analysis of hospital annual and quarterly financial reports to the Washington State Department of Health through second quarter 2011. Raw data downloaded September 15, 2011, from <http://www.doh.wa.gov/EHSPHL/hospdata/Financial.htm>. See also MultiCare Health System Consolidated Financial Statements for years ending December 31, 2010 and 2009.

¹⁸ Two of the Franciscan Health System hospitals, St. Francis and St. Elizabeth, are located in King County. Financial data for these hospitals are included when the Franciscan system is discussed, which is appropriate in the context of discussions of the financial health of the Franciscan system. Since these two hospitals are located in south King County, they are included with King County when regional comparisons are made. This is appropriate when the discussion turns to the relationship between providers and the communities in which they are located.

¹⁹ SEIU Healthcare 1199NW analysis of hospital annual and quarterly financial reports to the Washington State Department of Health through second quarter 2011.

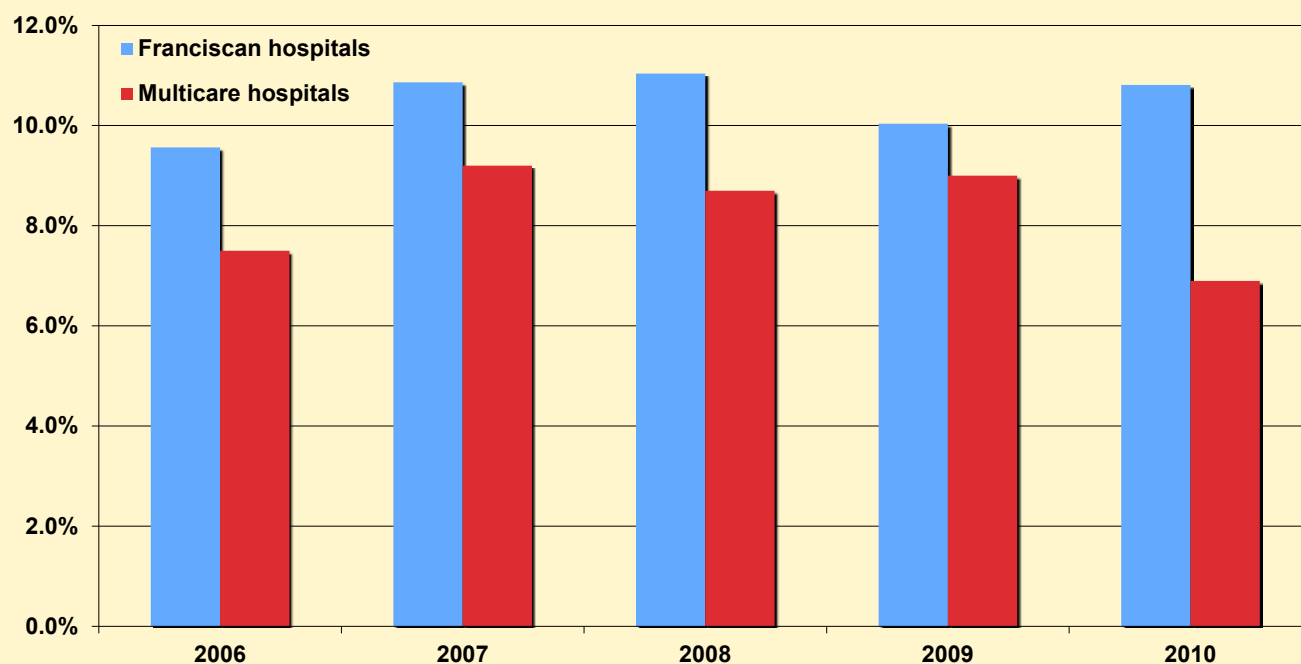
²⁰ MultiCare Health System Consolidated Financial Statements for year ending December 31, 2010.

Average Hospital Operating Profit Margin by County — fiscal year 2010 (weighted mean)



Operating Profit Margins — Fiscal years 2006-2010

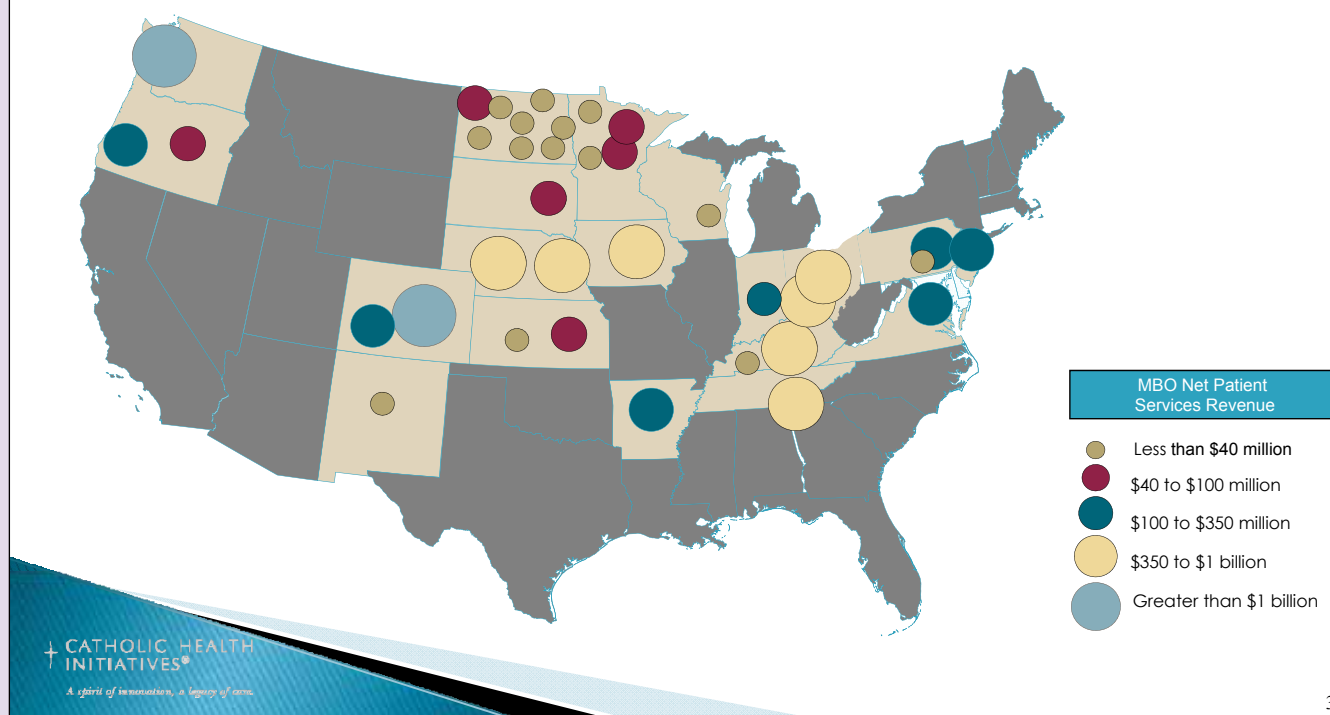
MultiCare hospitals combined. Franciscan hospitals combined.



source: SEIU Healthcare 1199NW analysis of Washington Department of Health data

Strong and Diverse Nationwide Presence

- 32 Market-Based Organizations and JOAs/JVs located in 19 states
- Strong rural presence: 28 CHI MBOs are the sole community provider in their market



3

Franciscan Health System and Catholic Health Initiatives

In 1996, Franciscan Health System affiliated with Catholic Health Initiatives (CHI), a nationwide network of hospital systems headquartered in Denver. As of December 2010, CHI oversaw hospital systems in 32 regional markets across the country.

CHI exercises significant authority over the Franciscan system with regard to operations and strategic planning. And CHI requires the Franciscan system to transfer resources up the ladder to Denver – for example, through annual “assessments” and through mandatory participation in a CHI system-wide “investment pool”.^{*} The chart above – from a May 2011 presentation by CHI executives to healthcare investors – shows that the Franciscan system is a top money earner for CHI.

^{*} See, for example, the 2008 IRS 990 filing for Franciscan Health System, where a “national assessment” exceeding \$12 million is listed on the Payments to Affiliates Schedule. See also the Official Statement for the October 2009 CHI bond issuance in Colorado, Kentucky, and Ohio; at page A-9 of Appendix A, CHI describes its “Operating Investment Program”.

Not only are these hospitals unusually profitable, but the executives who run these hospitals are extremely well paid. The CEOs of both systems receive total annual compensation in excess of \$1 million. At MultiCare, president and CEO Diane Cecchettini received over \$2 million in total compensation in 2009 and enjoyed a windfall of \$5 million in total compensation in 2008. At least six other MultiCare officers receive over \$1 million per year.²¹

²¹ 2010 IRS 990 filings for Franciscan Health System, Franciscan Foundation, and Franciscan Medical Group. Accessed October 7, 2011, at <http://foundationcenter.org/findfunders/990finder/>; 2009 IRS 990 filings for MultiCare Health System. Accessed September, 21, 2011, at <http://foundation-center.org/findfunders/990finder/>.

Narratives vs. reality

Franciscan and MultiCare hospitals have historically been exceptionally profitable, and both systems pay their executives very well. Yet both systems have lately claimed to face financial challenges and have worried aloud about impending decreases in Medicare and Medicaid reimbursements and increases in charity care costs. MultiCare recently cited these trends as justification for proposed layoffs of 350 staff.²² The Franciscan Health System responded to the news by attempting to reassure employees that layoffs were not imminent, but indicating that staffing might be reduced by attrition as positions became open – suggesting that charity care, bad debt, and declining reimbursements are contributing to the “financial pressures of these challenging times”.²³ The public rhetoric about “financial challenges” is incongruent with the reality of healthy bottom lines at the MultiCare and Franciscan hospitals.

Explaining High Hospital Profits in Pierce County

What accounts for the unusually large operating profits of the Franciscan and MultiCare hospitals? Four possible explanations readily suggest themselves:

1. **LOW EXPENSES** – Perhaps it is the case that, while operating revenues at these hospitals are average, operating expenses are unusually low; the hospitals post large profits by holding down expenses.
2. **HIGH VOLUMES** – Perhaps it is the case that these hospitals treat an exceptionally large number of patients; the hospitals post large profits by providing a unusually large volume of services.
3. **COMPLEX CASES** – Perhaps it is the case that these hospitals treat patients with complex conditions that garner extra reimbursement from third-party payers; the hospitals post large profits by providing complex services for which the standard industry-wide charges are expected to be higher.
4. **HIGH PRICES** – Perhaps it is the case that these hospitals command higher prices than other hospitals for the services that they provide; the hospitals post large profits simply by charging more than other hospitals for the same services.

Hospitals in Washington state submit quite a lot of data about revenues, expenses, and volumes to the state Department of Health (DoH). Much of those data are available to the public. The analysis of those data shows that neither the first, the second, nor the third possible explanations canvassed above account for the high profits of Franciscan and MultiCare hospitals. Unfortunately, the data necessary to definitively confirm or disconfirm the fourth possible explanation are not available to the public.

²² C.R. Roberts (2011), “Tacoma-based MultiCare to lay off up to 350 employees by fall,” *The News Tribune* (Tacoma), July 13: A1.

²³ “What the MultiCare Layoffs Mean to Franciscan,” memorandum from Franciscan CEO Joe Wilczek to Franciscan employees, July 15, 2011.

Low Expenses

One possible explanation for the higher profit margins at Franciscan and MultiCare hospitals is that expenses are lower at these hospitals than at their peers. However, the DoH data show that operating expenses per unit of service – technically, operating expenses per “adjusted case mix value unit”²⁴ – at the Franciscan and MultiCare hospitals are not out of line. Expenses at the Pierce County hospitals have been consistent with regional and statewide averages, as the table below indicates.

Average Operating Expenses per ACMVU (weighted mean by county)				
	2007	2008	2009	2010
Pierce	\$10,359	\$10,983	\$12,283	\$12,170
King	\$10,713	\$11,650	\$11,942	\$12,850
Kitsap	\$8,445	\$8,974	\$9,934	\$11,006
Snohomish	\$8,667	\$9,065	\$9,049	\$9,824
Thurston	\$8,445	\$9,361	\$9,449	\$9,732
Statewide	\$9,438	\$10,307	\$10,731	\$11,301
St. Elizabeth and St. Francis included in King County figures.				

source: SEIU Healthcare 1199NW analysis of Washington Dept. of Health data

In fact, expenses at the Pierce County hospitals have been exceeding averages for peer institutions for the last two years. So the evidence does not support low expenses as an explanation for high profits.

The available evidence does suggest, however, that patient revenues at Franciscan and MultiCare hospitals are higher than average.

Average Operating Revenue per ACMVU (weighted mean by county)				
	2007	2008	2009	2010
Pierce	\$32,968	\$35,339	\$40,866	\$42,108
King	\$23,204	\$25,495	\$28,034	\$30,704
Kitsap	\$16,759	\$19,337	\$23,622	\$29,967
Snohomish	\$21,464	\$23,679	\$25,104	\$27,971
Thurston	\$26,551	\$29,818	\$31,895	\$34,059
Statewide	\$21,934	\$24,382	\$26,805	\$26,799
St. Elizabeth and St. Francis included in King County figures.				

source: SEIU Healthcare 1199NW analysis of Washington Dept. of Health data

Here, the differences are very noticeable. On average, the Pierce County hospitals consistently generate anywhere from \$6,000 to \$17,000 more revenue per ACMVU annually than their peers. In 2010, the Pierce County average exceeded the King County average by \$11,404 and the statewide average by \$15,309.

This strongly suggests that the answers to questions about high profit margins for Pierce County hospitals are to be found on the revenue side, not the expense side.

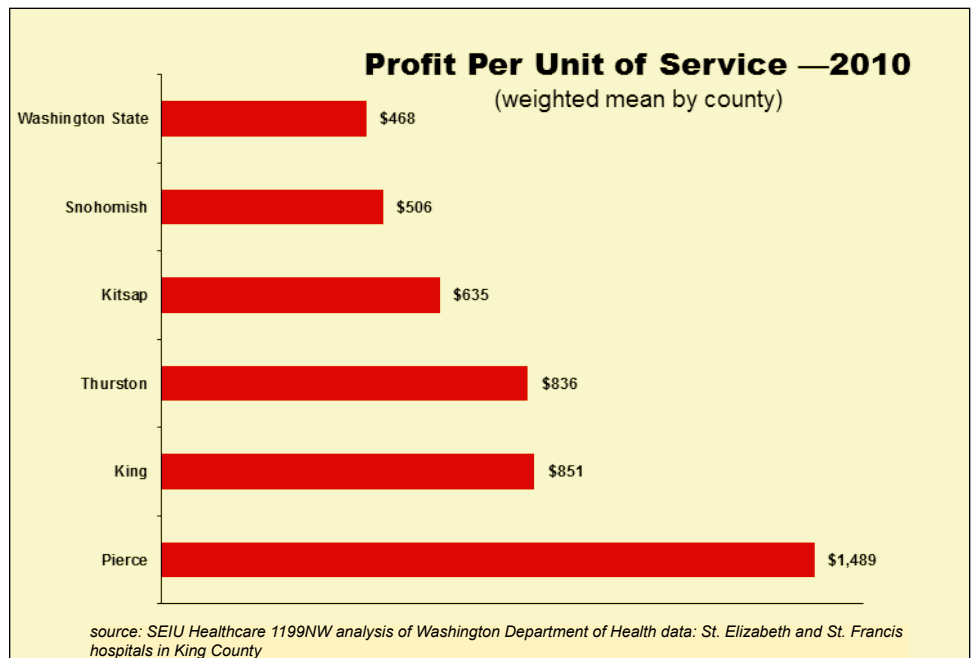
²⁴ Each year, hospitals submit to DoH information about the number of patients treated in both inpatient and outpatient settings and the conditions for which those patients were treated. DoH uses this information to determine how many “adjusted case mix value units” (ACMVUs) a hospital provided in a year. The metric combines the number of inpatient admissions for each hospital with an estimated number of outpatient visits based on reported outpatient revenues, then adjusts that number for differences in “case mix” – that is, differences in severity of illnesses treated, age of patients treated, and complexity of treatments provided. The result is a measure of units of service delivered that, because it controls for several variables, allows apples-to-apples comparisons among providers that serve different types of patients.

Patient Volume & Case Mix

Another possible explanation for the high operating profit margins at Franciscan and MultiCare hospitals is that these hospitals treat a larger volume of patients and/or more complex cases. However, a comparison of the “profit per unit of service” (PPU) – technically, profit per ACMVU²⁵ – at these hospitals with the average PPU at peer facilities indicates that, even after controlling for patient volumes and complexity of care delivered, the profits at Pierce County hospitals are unusually large.

Consider the largest revenue generating hospital within each system. In 2010, Franciscan St. Joseph Medical Center posted \$1,543

PPU and MultiCare Tacoma General-Allenmore Hospital posted \$1,167 PPU. The average for all hospitals in Pierce County was \$1,489 PPU. During the same period, the statewide average was \$468 PPU and the average for King County hospitals was \$851 PPU. The average for Kitsap County hospitals was \$635 PPU; for Thurston County hospitals it was \$836 PPU; and for Snohomish County hospitals it was \$506 PPU.



High Prices

So none of the first three possible explanations adequately accounts for the high profits at Franciscan and MultiCare hospitals. In fact, as mentioned above, high operating revenues per ACMVU at Franciscan and MultiCare hospitals point toward high prices as the likely explanation for the high profit margins. However, in order to confirm this hypothesis, one would need to investigate the actual prices paid by third party payers – by private insurance companies as well as by the government-run Medicare and Medicaid programs – for services rendered at these hospitals. And, while Medicare and Medicaid reimbursement rates – which can be determined from publicly-available records – can vary from one hospital to another (depending on where a hospital is located, whether it serves a disproportionate share of Medicaid-covered or uninsured patients, whether it has an active medical education program, and other factors), there is typically much wider variation among the reimbursement rates paid by private insurers.²⁶ Unfortunately, in Washington state, data on private insurance reimbursement rates are not available to the public. Indeed, private insurance companies treat that information as proprietary, viewing its confidentiality as crucial to maintaining a competitive market position.

Even so, one of the largest private insurance companies doing business in Washington state recently complained that at least one of the Pierce County providers charges unusually high prices for its services. In 2009, Premera Blue Cross published a white paper, based on an analysis of its own proprietary claims data, charging that the prices it paid at Franciscan hospitals were 10% above the state average and that the operating profit margin on Premera patients at Franciscan hospitals ranged between 25% and 40%.²⁷

25 “Profit per unit of service” is a ratio. For a particular hospital H, the numerator is arrived at by subtracting H’s total annual operating expenses (including wages, supply expenses, capital expenses, provision for bad debt, and all other expenses associated with the delivery of healthcare services, whether inpatient or outpatient) from H’s total annual operating revenue (including both inpatient and outpatient operating revenues, but excluding investment income and other non-operating revenues). The denominator is total annual ACMVUs delivered at H. Similar metrics are routinely used to compare hospital performance. See, for example, T. Grannemann, R.S. Brown, M.V. Pauly (1986), “Estimating hospital costs: a multiple-output analysis,” *Journal of Health Economics* 5:107-127.

26 On variation in reimbursement rates among private payers, see, for example, P.B. Ginsburg (2010), “Wide Variation in Hospital and Physician Payment Rates Evidence of Provider Market Power,” Research Brief No. 16, Center for Studying Health System Change. Accessed November 21, 2011, at <http://hschange.org/CONTENT/1162/>.

27 Rich Maturi (2009), *Understanding the Impact: The Franciscan / Premera Contract Negotiation on Healthcare Affordability*, Seattle: Premera Blue Cross of Washington.

Conclusion

The available data show that hospitals owned by Franciscan and MultiCare, the two systems that dominate the Pierce County healthcare market, routinely post unusually large profit margins compared to peer hospitals. Neither differences in expenses, nor differences in volume of patients treated, nor differences in complexity of patients treated can account for the high profits. Franciscan and MultiCare are making large sums of money at their hospitals while Pierce County faces significant economic challenges and a wide range of unmet health needs.

Both Franciscan and MultiCare are nonprofit organizations that enjoy preferential tax treatment at the federal and state levels. This special status is extremely valuable and includes exemption from federal income tax, exemption from state and local property taxes, the ability to accept charitable donations that are tax deductible for the donors, and access to low-cost financing through the tax-exempt municipal bond markets. These organizations qualify as tax-exempt nonprofits under section 501(c)(3) of the Internal Revenue Code not because they are healthcare organizations, but, rather, because they are classified as charitable organizations. In short, in return for their valuable special tax status, these systems are expected to serve a charitable mission; they have a duty to care for the underserved and dispossessed in our communities.

Both systems seem to acknowledge this calling in their mission statements. Franciscan asserts that, as "...a non-profit, faith-based organization, the Franciscan Health System has a mission to work toward the creation of healthier communities. We provide the best care possible to everyone who needs it, regardless of their ability to pay, and work to improve access to care for everyone throughout the communities we serve."²⁸ MultiCare claims "stewardship" as one of its values and makes a commitment to "...develop, use and preserve our resources for the benefit of our customers and community."²⁹ Yet both systems routinely post huge hospital profits while our local communities struggle with economic and health challenges.

Community Health Benefits

In response to increasing scrutiny of their nonprofit status, healthcare organizations have begun to call attention to the money they spend on "community health benefits". However, not all expenses that nonprofit hospitals claim as community benefit expenditures ought to be treated as such. It can be a challenge to distinguish genuine from spurious claims.

The Access Project, a respected national healthcare advocacy and reform group, defines **community health benefits** as "the unreimbursed goods, services, and resources provided by healthcare institutions that address community-identified health needs and concerns, particularly those of people who are traditionally uninsured and underserved."^{*}

Whether a particular healthcare service or program qualifies as a genuine community health benefit depends on answers to the following questions:

- (1) Does the hospital lose money by providing the service?
- (2) Does provision of the service generate revenue, perhaps in other areas of the hospital, that compensates the hospital for the cost of providing the service?
- (3) Is the service *voluntarily* provided with the *intent* of serving those in need?
- (4) Are members of the community involved in the development and implementation of the program?
- (5) Is the program or service typically provided by for-profit hospitals, too?
- (6) Does the program address actual unmet healthcare needs among uninsured patients, low-income people, communities of color, immigrants, or another traditionally underserved populations?

Only the actual unreimbursed cost of services that are voluntarily provided without expectation of payment and aimed at addressing unmet health needs of underserved populations counts as spending on genuine community health benefits.

Unfortunately, many hospitals do not report their alleged spending on community benefits in sufficient detail to determine how much of what is reported actually meets this standard.

^{*} Natalie Seto and Bess Karger Weiskopf (2000), *Community Benefits: The Need for Action, an Opportunity for Healthcare Change*, The Access Project, p. 2. Accessed November 21, 2011, at http://www.accessproject.org/adobe/community_benefits_manual.pdf.

²⁸ Franciscan Health System (2011), Mission, Vision, and Values. Accessed November 18, 2011, at http://www.fhshealth.org/about.aspx?id=3274&menu_id=32.

²⁹ MultiCare Health System (2011), Our Mission and Values. Accessed November 18, 2011, at <http://www.multicare.org/home/mission-values>.

The findings reported above raise a number of troubling questions:

- What do Franciscan and MultiCare do with their enormous profits?
- In what ways could these two organizations better allocate their sizeable surplus resources – these community resources – to improving the health and welfare of our communities?
- What group or entity or agency will hold these organizations accountable to their missions?

The issues raised by these questions are even more acute in light of the fact that the structure of the Pierce County healthcare market essentially limits the choice of healthcare providers, especially for inpatient and complex care. Most of the healthcare options in the county are connected to one system or the other – if there are health needs to be met, these two organizations surely have a huge share of the responsibility to meet them.

Of course, the people of Tacoma and Pierce County highly value the contributions that the Franciscan and MultiCare hospitals make to our communities – by providing healthcare, by providing jobs and being major contributors to the local economy, and through involvement in the community beyond the daily execution of their normal business operations. And we want these healthcare providers to be successful. Still, their successes can – and should – benefit the entire community.

Washington CAN